

**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 25, 2006 Through December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CALLOWAY COUNTY FORMER SHERIFF'S SETTLEMENT - 2006 TAXES

**For The Period
April 25, 2006 Through December 31, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the former Calloway County Sheriff for the period April 25, 2006 through December 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$9,125,080 for the districts for 2006 taxes, retaining commissions of \$341,282 to operate the Sheriff's office. The former Sheriff distributed taxes of \$8,763,039 to the districts for 2006 taxes. Refunds of \$775 are due to the former Sheriff from the taxing districts.

Report Comment:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The former Sheriff's deposits as of October 31, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$458,532

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES.....	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENT AND RECOMMENDATION	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Elkins, Calloway County Judge/Executive

Honorable Larry Roberts, Former Calloway County Sheriff

Honorable William Marcum, Calloway County Sheriff

Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the former Calloway County Sheriff's Settlement - 2006 Taxes for the period April 25, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Calloway County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Calloway County Sheriff's taxes charged, credited, and paid for the period April 25, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Elkins, Calloway County Judge/Executive

Honorable Larry Roberts, Former Calloway County Sheriff

Honorable William Marcum, Calloway County Sheriff

Members of the Calloway County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

November 19, 2007

CALLOWAY COUNTY
LARRY ROBERTS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 25, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,547,041	\$ 1,801,995	\$ 3,648,169	\$ 1,584,170
Tangible Personal Property	173,410	260,195	327,999	439,757
Increases Through Exonerations	194	228	513	198
Franchise Taxes	54,352	78,323	131,868	
Additional Billings	522	661	1,222	1,085
Bank Franchises	89,006			
Penalties	549	724	1,092	
Adjusted to Sheriff's Receipt	<u>25</u>	<u>81</u>	<u>(8)</u>	<u>(5)</u>
Gross Chargeable to Sheriff	<u>1,865,099</u>	<u>2,142,207</u>	<u>4,110,855</u>	<u>2,025,205</u>
<u>Credits</u>				
Exonerations	6,288	8,108	16,756	5,382
Discounts	28,133	32,572	61,658	32,677
Uncollected Bank Franchise	40,478			
Uncollected Franchise Taxes	12	15	12	
Official Receipt - Incoming Sheriff	<u>134,111</u>	<u>167,132</u>	<u>343,508</u>	<u>141,444</u>
Total Credits	<u>209,022</u>	<u>207,827</u>	<u>421,934</u>	<u>179,503</u>
Taxes Collected	1,656,077	1,934,380	3,688,921	1,845,702
Less: Commissions *	<u>70,671</u>	<u>81,213</u>	<u>110,668</u>	<u>78,730</u>
Taxes Due	1,585,406	1,853,167	3,578,253	1,766,972
Taxes Paid	1,578,809	1,843,455	3,575,964	1,764,811
Refunds (Current and Prior Year)	<u>6,725</u>	<u>9,901</u>	<u>2,732</u>	<u>2,176</u>
(Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (128)</u>	<u>\$ (189)</u>	<u>\$ (443)</u>	<u>\$ (15)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
 LARRY ROBERTS, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period April 25, 2006 Through December 31, 2006
 (Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	5,036,988
4% on \$	388,327
3% on \$	3,688,921
1% on \$	844

** Special Taxing Districts:

Library District	\$	(40)
Health District		(26)
Extension Service		(1)
Jail		(61)
Fire District		(54)
Timber		(7)
Refunds Due Sheriff	\$	<u>(189)</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$458,532

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2006 through December 31, 2006.

Note 4. Interest Income

The former Calloway County Sheriff earned \$4,791 as interest income on 2006 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Larry Roberts, Former Calloway County Sheriff
Honorable William Marcum, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Calloway County Sheriff's Settlement - 2006 Taxes for the period April 25, 2006 through December 31, 2006, and have issued our report thereon dated November 19, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Calloway County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Calloway County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Calloway County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Calloway County Sheriff's Settlement – 2006 Taxes for the period April 25, 2006 through December 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Calloway County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 19, 2007

COMMENT AND RECOMMENDATION

CALLOWAY COUNTY
LARRY ROBERTS, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period
April 25, 2006 Through December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

The former Sheriff's office had a lack of segregation of duties. The former Sheriff's bookkeeper collected payments from customers, recorded transactions in the receipts ledger, and prepared daily deposits and monthly reports. Upon preparation of the monthly reports, the bookkeeper then prepared checks for required payments and recorded these payments in the disbursements ledger. The bookkeeper also prepared the monthly bank reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts and disbursements. The following compensating controls could have been implemented to offset this internal control weakness:

- The former Sheriff could have periodically compared the daily bank deposit to the daily tax collection printout. Any differences should have been reconciled. He could have documented this by initialing the bank deposit and the daily tax collection printout.
- The former Sheriff could have periodically compared his daily tax collection printouts for one month to his monthly tax collection report for one district. Any differences should have been reconciled. The former Sheriff could have documented this by initialing this district's monthly tax collection report for the month being examined.
- The former Sheriff could have compared payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The former Sheriff could have documented this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The former Sheriff could have periodically compared the bank reconciliation to the checkbook balance. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Personnel was not sufficient to adequately attend to this.

